

# Understanding Your Taxes



★ NEWSLETTER FROM THE CITY OF CAMBRIDGE ★ EXECUTIVE DEPARTMENT ★

## Dear Residents and Taxpayers of Cambridge:

This is the second year of our continued effort to provide citizens and taxpayers with a series of newsletters about the City's fiscal health, budget, property assessments and tax bills.

Cambridge continues to face the same challenges as every community in the Commonwealth with regard to municipal financing and the reliance on the property tax. The City receives approximately 60% of its revenues from the property tax. Massachusetts communities are limited in how they can raise revenues, which results in a greater reliance on the property tax since it is the largest and most stable revenue. Cambridge has been able to achieve a lower property tax rate and lower residential property tax bill than surrounding communities due to its ability to generate non-property tax revenues, new construction, controlled budget growth and the prudent use of reserves. However, the pressures of rising health insurance and pension costs, energy costs and debt service increases to fund infrastructure improvements continue to be major concerns.

In FY06, the City adopted a budget which achieved a 0% increase in the property tax levy. This was the first time in a decade there was no increase. As a result, 76% of the residential taxpayers received a property

tax bill that was lower, the same, or only slightly higher (less than a \$100) than the previous year.

While it is unrealistic to have a 0% increase in the property tax levy again in FY07 without significant reductions in services, the City worked hard during the budget process to produce an FY07 Budget that increased only 3.9%. As a result, the projected increase in the tax levy is less than 5%. Prior to FY06 the average annual levy increase for the previous five years was 6.3%.

The City Council votes on the City Manager's FY07 property tax and classification recommendations in September 2006.

The three major Wall Street rating agencies continued to show confidence in the City's financial management by awarding an AAA bond rating. This rating directly impacts the City's cost of borrowing for capital projects.

I encourage you to examine this publication, and to seek out City staff from the departments listed on the back cover with any questions or comments.

Sincerely,

ROBERT W. HEALY, CITY MANAGER

**City Council Goal:**  
Evaluate City expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers.

### Cambridge Residential Tax Rate Continues to be the Lowest Among Surrounding Communities and One of the Lowest of Any City in the Commonwealth!

	FY 06 TAX RATE (PER \$1,000)	TAX BILL \$400,000 HOME	TAX BILL \$800,000 HOME
<b>CAMBRIDGE*</b>	<b>\$ 7.38</b>	<b>\$ 1,405</b>	<b>\$ 4,357</b>
BROOKLINE*	\$ 9.55	\$ 2,244	\$ 6,064
SOMERVILLE*	\$ 10.53	\$ 2,660	\$ 6,872
BOSTON*	\$ 11.12	\$ 3,103	\$ 7,551
WATERTOWN*	\$ 11.17	\$ 3,451	\$ 7,919
BELMONT	\$ 10.41	\$ 4,164	\$ 8,328
ARLINGTON	\$ 11.34	\$ 4,536	\$ 9,072

\* Includes residential exemption for owner occupied homes. The residential exemption has not been adopted by all communities.

# Motor Vehicle Excise

All Massachusetts residents who own and operate a motor vehicle must pay an annual motor vehicle excise. The excise is levied by the city or town in which the vehicle is principally garaged. Motor excise bills are created from vehicle registration data collected by the Registry of Motor Vehicles. The RMV sends the bill information to the city or town, which is then responsible for mailing the bills and collecting the tax.

**WHEN ARE MOTOR EXCISE BILLS SENT?** Most people receive their excise bill in February. However, if you buy a car or move into the state during the year, you will receive your first excise tax bill a few months after the car is registered. This bill will be pro-rated for the portion of the year that you own and operate that vehicle in the State of Massachusetts. Thereafter, you will receive your bill in February.

**HOW IS MY EXCISE BILL CALCULATED?** Each motor vehicle is levied a tax at the rate of \$25 per one thousand dollars of valuation. The value of the vehicle is determined by the State using a formula that considers the manufacturer's list price for vehicles in their year of manufacture and the age of the vehicle. The State formula is as follows:

In the year preceding the designated year of manufacture:	50%
In the designated year of manufacture:	90%
In the second year:	60%
In the third year:	40%
In the fourth year:	25%
In the fifth and succeeding years:	10%

**IF I MOVE, WHO DO I CONTACT TO GIVE CHANGE OF ADDRESS INFORMATION?** You must inform the Registry of Motor Vehicles of any change in address. Prompt notification of address changes will help ensure that you receive your bill. It is important to note that where you live on Jan 1 of each year dictates where the bill will be sent. If you move after that date, you must contact the community in which you resided on Jan. 1 to make sure that you get that year's bill.

**WHO DO I CONTACT IF I DO NOT RECEIVE A BILL?** Contact the City's Finance Department at 617 349 4220. According to Chapter 60A, Section 2 of the Massachusetts Law, a person who does not receive a bill is still liable for the excise plus any interest charges and penalties that accrue. Therefore it is the responsibility of the owner to contact the City in the event that a bill is not received or forwarded from a former address.

**WHAT ARE THE PENALTIES FOR LATE PAYMENT OR FOR NOT PAYING MY EXCISE BILL?** If excise is not paid within 30 days, interest will accrue on the overdue bill at an annual rate of 12% from the day after the due date. Additional fees of up to \$64 may be added to an unpaid excise bill. If the bill is not paid within a year of issue, the City will notify the Registry of Motor Vehicles and the owner will be unable to renew the car's registration and/or renew a driver's license until the bill has been paid.

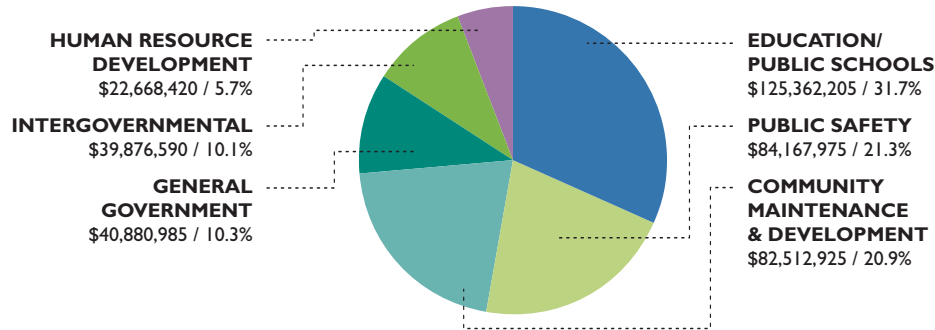
## DID YOU KNOW?

TOP TEN CITY TAXPAYERS (FISCAL 2006)	NATURE OF BUSINESS	ASSESSED VALUATION	AMOUNT OF TAXES	% OF TOTAL TAX LEVY
Mass. Institute of Technology	Education	\$1,385,771,700	\$23,481,937	10.53%
Lyme Properties LLC	Commercial	557,718,600	9,792,793	4.39
Boston Properties	Commercial	398,823,300	7,122,984	3.19
Novartis Pharmaceuticals	Commercial	221,426,400	3,954,676	1.77
Equity Partners	Commercial	235,154,200	3,852,045	1.73
New England Development	Commercial	193,047,200	3,447,823	1.55
NOP Riverfront LLC	Commercial	180,000,400	3,214,807	1.44
One Kendall LLC	Commercial	177,489,400	3,146,925	1.41
Pres. & Fellows of Harvard College	Education	283,637,800	3,058,258	1.37
Draper Laboratories	Commercial	134,523,400	2,402,588	1.08
		<b>\$3,767,592,400</b>	<b>\$63,474,836</b>	<b>28.46%</b>

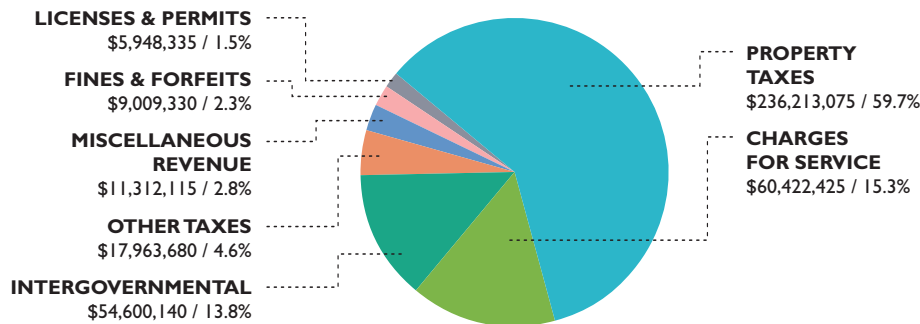
# City of Cambridge FY2007 Budget

**TOTAL OPERATING BUDGET: \$395,469,100**

## OPERATING EXPENDITURES



## OPERATING REVENUES

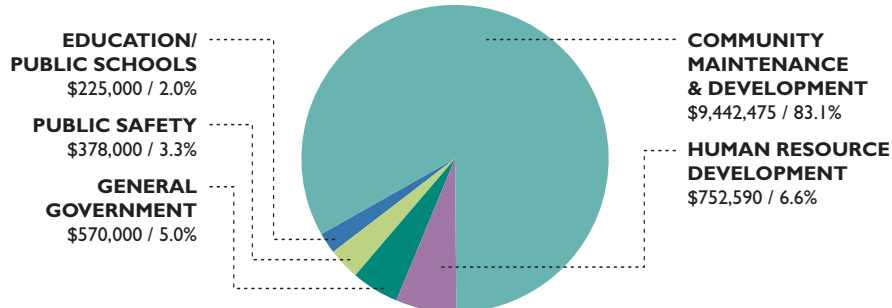


## DEPARTMENTS BY FUNCTIONAL GROUPS

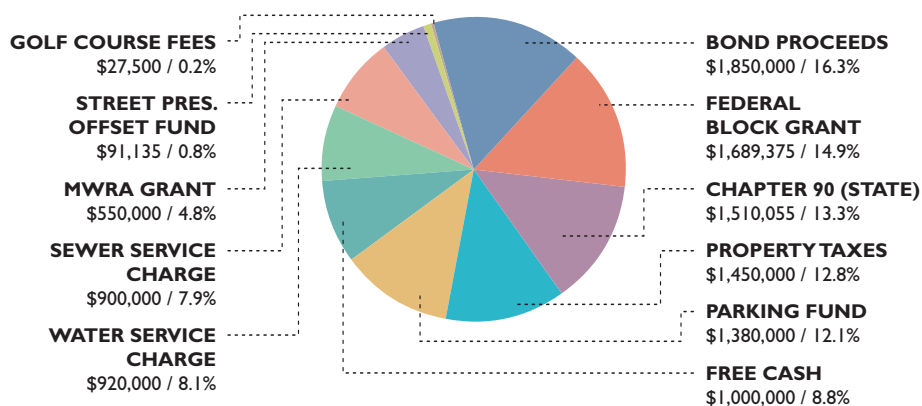
<b>General Government</b> (\$40,880,985)	<b>Public Safety</b> (\$84,167,975)
Mayor	Animal Commission
Executive	Fire
City Council	Police
City Clerk	Traffic, Parking & Transportation
Law	Police Review & Advisory Board
Finance	Inspectional Services
Employee Benefits	License
General Services	Weights & Measures
Election	Electrical
Public Celebrations	Emergency Management
Reserve	Emergency Communications
<b>Community Maintenance and Development</b> (\$82,512,925)	<b>Human Resource Development</b> (\$22,668,420)
Public Works	Library
Water	Women's Commission
Community Development	Human Services
Historical Conservation	Human Rights Commission
Peace Commission	Veterans
Cable T.V.	
Debt Service	
	<b>Intergovernmental</b> (\$39,876,590)
	MWRA
	State Assessments
	Cambridge Health Alliance

**TOTAL CAPITAL BUDGET: \$11,368,065**

## CAPITAL EXPENDITURES



## CAPITAL REVENUES



## FY07 CAPITAL PROJECTS LIST

- Acquisition of Personal Computers /Technology Upgrades
- Fire Vehicles/Equipment and Fire Station Renovations
- Public Building Renovations
- Street/Sidewalk Reconstruction
- Accessibility Improvements
- Park and Cemetery Tree Pruning
- Parking and Roadway Improvements /Traffic Calming
- Water System Improvements
- Sewer Reconstruction
- Housing Rehab & Development
- Employment Program Fund
- Neighborhood Business Development /Façade Improvement
- Public Art Conservation Fund
- Parks and Recreation
- School Equipment/Renovations
- Yerxa Road Underpass Construction

# How Your Tax Bill is Determined

## Basic facts about the real estate tax levy

Three major factors are responsible for calculating a tax bill:

- ★ THE CITY BUDGET
- ★ COMMERCIAL-RESIDENTIAL PROPERTY TAX CLASSIFICATION
- ★ PROPERTY VALUES (ASSESSMENT).

**CITY BUDGET.** The adopted FY07 budget of \$395.5 million is 3.9% greater than the FY06 adjusted budget. While the City has many sources of revenue, property taxes support about 60% of the operating budget. For FY07, the City projects that it must collect about \$235.3 million in property taxes. This is called the tax levy. Last year, the City Council and City administration produced an FY06 Budget with a 0% property tax levy increase, which meant that 76% of the residential taxpayers received a property tax bill that was lower, the same or only slightly higher (less than \$100) than the previous year. While it is unrealistic to have another 0% increase in the property tax levy in FY07 without significant reduction in services, the City Council and City administration worked hard during the budget process to produce an FY07 Budget with a modest increase. As a result, the property tax levy increase is projected to increase less than 5%. Prior to FY06, the average annual levy increase for the previous five years was 6.3%.

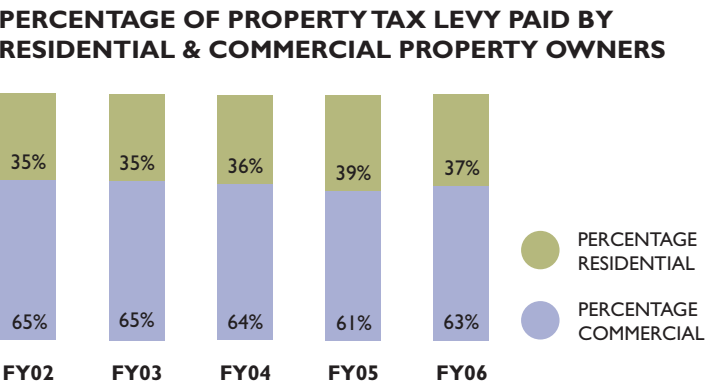
CAMBRIDGE OPERATING BUDGET (in millions)			CAMBRIDGE TAX LEVY (in millions)		
FY 05	FY 06	FY 07	FY 05	FY 06	FY 07
\$362.4M	\$380.2M	\$395.5M	\$223.0M	\$223.0M	\$235.3M (projected)

## COMMERCIAL-RESIDENTIAL PROPERTY TAX

**CLASSIFICATION.** Municipalities are allowed to tax commercial property (i.e. office, industrial and retail buildings, hotels and personal property) at a higher tax rate than residential property. This process is known as property tax classification. The State property tax classification law is complex, as are the formulas that determine how much the City may collect in property taxes from both residential and commercial property owners. The State limits how much higher the commercial tax rate may be set above the residential tax rate. Neither the City Council nor the City

administration is allowed to increase the proportion of the tax levy paid by commercial owners versus the proportion paid by residential owners of real estate above the current limit under the permanent law. Overall, the property tax classification process has meant that commercial property owners traditionally have paid approximately two-thirds of the total property taxes.

In FY04, the City of Cambridge reached the maximum shift of the tax levy from residential owners to commercial owners allowed by the State. Escalating residential values, which outpaced commercial property values, were the primary reason that Cambridge reached the permanent, state imposed limit on its ability to shift the tax burden from residential taxpayers to the commercial taxpayers. As a result, not as much of the property tax levy may be shifted to commercial owners.



In FY05, the trend of slowing values of commercial real estate, coupled with rising values of residences, required Cambridge to further shift the relative burdens of commercial and residential property owners. This trend was reversed in FY06 when the commercial property owners as a group were required to pay 63% of the property tax levy, up from 61% the year before. Likewise in FY06, the share paid by residential owners went down from 39% to 37%.

Preliminary projections for FY07 indicate that the portion of the tax levy paid by commercial property owners may decrease slightly below the FY06 level. The vibrant Cambridge residential market has resulted in a 25% increase of condominium units during the five-year period between FY03 and FY07, from 9,001 units in FY03 to 11,237 units in FY07. The robust housing market has also resulted

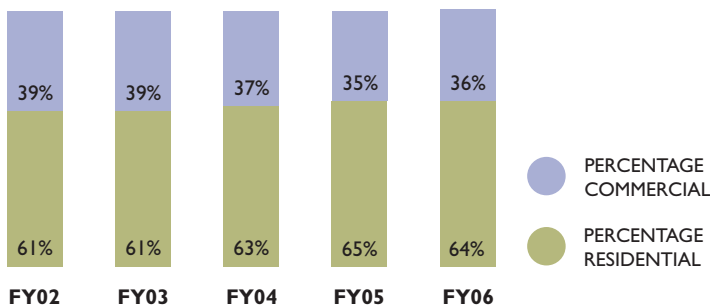
**“Moody’s expects that the City will continue to maintain a very strong financial position given prudent management strategy and policies implemented by a strong management team, steady revenue streams generated by its substantial and economically vibrant tax base, and a notable degree of flexibility to address future budgetary challenges.”**



in commercial property being converted to residential use, which has further eroded the commercial base while increasing the residential base. The national trend of residential property values growing at a higher rate than commercial values appears to be leveling. However, Cambridge remains a highly attractive, desirable place to live, with low crime, a highly educated workforce and desirable cultural and business amenities, which support the property values.

The chart below shows the percent of total value of residential and commercial property. In FY06, residential property comprised 64% of total value, but residential owners paid only 37% of total taxes.

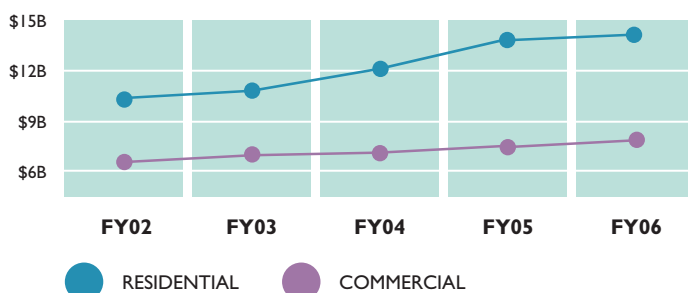
#### PERCENTAGE RESIDENTIAL & COMMERCIAL PROPERTY VALUES



**PROPERTY VALUES.** Property values are established independent of the above two factors. The Massachusetts State Department of Revenue requires that all property be assessed annually, using approved mass appraisal techniques, at 100% of full and fair cash value. Individual assessments may rise and fall based upon market activities for similar properties and capital improvements. Fiscal year assessments are the property values as of the previous January 1st. The FY07 property tax bills are based on the assessed value as of January 1, 2006, using calendar 2005 market activity. The tax rate is established by dividing the tax levy by total property value. Your property tax bill is calculated by multiplying your property's value by the tax rate.

The chart below illustrates that residential values are growing at a faster rate in comparison to commercial values. During the past five years, the total residential value has increased by 35% as compared to a 21% increase for commercial property value.

#### FIVE-YEAR COMPARISON OF RESIDENTIAL AND COMMERCIAL TOTAL VALUES



## INDEPENDENT ASSESSMENTS OF CAMBRIDGE'S FINANCIAL HEALTH

### What do the Rating Agencies say?

Wall Street has three major ratings services: Fitch, Moody's, and Standard & Poor's. All three give Cambridge an AAA rating. That is the highest possible. The critical factor examined by ratings services is whether a city has a prudent balance between incoming revenues and outgoing expenditures. Cambridge has managed its finances quite responsibly for a long time. Many communities in Massachusetts and the nation pay significantly higher interest rates than Cambridge when borrowing money for capital improvement projects.

*"Moody's assignment of its highest quality long-term rating (AAA) incorporates: an exceptionally strong financial position supported by the City's seasoned and highly effective management team, a large and diverse tax base with significant development plans underway and a modest and rapidly-amortized debt profile supported by healthy enterprise systems and significant commonwealth school building aid."*

Moody's Investors Service, January 2006

### Other Measures of Success...

- ★ Cambridge has one of the lowest residential tax rates of any city in the Commonwealth.
- ★ Cambridge is one of only 4 municipalities in Massachusetts awarded the Certificate of Achievement for Excellence in Financial Reporting (CAFR) and Distinguished Budget Presentation by the Government Finance Officers Association (GFOA).
- ★ In FY06, due to long-term prudent fiscal management, Cambridge had an excess property tax levy capacity of \$65.1 million which is the largest amount of any municipality in the State.
- ★ The National Organization on Disability selected Cambridge as the Accessible America 2005 grand prize winner, recognizing Cambridge as a national model for its focus on disability issues and for its successful design of programs, services and facilities.
- ★ America's Promise Alliance selected Cambridge as one of 100 Best Communities for Young People. Cambridge was chosen from over 1,200 entries by a distinguished panel of national civic, business and non-profit leaders.
- ★ Awarded a \$10.7 million grant from the Massachusetts Board of Library Commissioners, which is their largest single award, to support the new main library project.

# What If I Have a Tax Related Question or Want More Information?

## Ask The Treasurer

EMAIL: [treasurer@cambridgema.gov](mailto:treasurer@cambridgema.gov)

## SEND MAIL TO:

The City Treasurer  
Cambridge City Hall  
795 Massachusetts Avenue  
Cambridge, MA 02139

VISIT THE CITY'S WEBSITE: [www.cambridgema.gov](http://www.cambridgema.gov)

Sign up for Cambridge E-Line to receive periodic electronic newsletters, alerts and City publications.

## CONTACT A DEPARTMENT:

Assessing Department for Property Value Info. 617 349 4343

Budget Office for Expenditure/Revenue Info. 617 349 4270

Finance Department for Tax Bill Info. 617 349 4220

City Manager's Office 617 349 4300

## Important Dates & Publications

### SEPTEMBER 2006

- Residential and commercial tax rates established

### OCTOBER 2006

- FY07 Tax Bills Mailed
- FY07 Property Tax Update Newsletter Mailed (Including info. on Abatements and Exemptions)
- Community Q&A meetings scheduled at various locations

### NOVEMBER 2006

- Exemptions and Tax Deferral Newsletter Mailed

[www.cambridgema.gov](http://www.cambridgema.gov)

★ NEWSLETTER #1 ★

Tel 617 349 4300  
[www.cambridgema.gov](http://www.cambridgema.gov)

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